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ABSTRACT

The Stewart B. McKinney Homeless Assistance Act, passed in July 1987, authorized over $400 million for fiscal year 1987 in homeless assistance for several federal programs, including the Department of Housing and Urban Development (HUD) and the Federal Emergency Management Agency (FEMA). This report examines how funds appropriated to HUD and FEMA were used before the act, describes actions taken pursuant to the act, and identifies issues concerning the act's implementation that may warrant more detailed examination in the 1988 report. Although the McKinney Act called for funds to be disbursed by October 11, 1987, it is unlikely that any appreciable disbursements will be made before December. Planned expenditures of pre-McKinney Act funds indicate that nearly 50 percent of FEMA's program funds were to be used for food. The cities and counties receiving direct allocations from HUD's Emergency Shelter Grants Program planned on spending approximately half their funds for shelter operations and maintenance. The following issues should be examined: (1) under what condition should HUD funds be used for capital improvements to facilities owned by religious organizations? (2) Will HUD and FEMA programs reach targeted populations? (3) Do fund distribution formulas adequately measure needs? (4) Should homeless programs allow other federal funds to be used as matching funds? Data are presented in six tables. An appendix lists major contributors to this report. (BJV)

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United States General Accounting Office

GAO

Report to the Congress

December 1987

HOMELESSNESS

Implementation of Food and Shelter Programs Under the McKinney Act

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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

B-229004

December 8, 1987

To the President of the Senate and the
Speaker of the House of Representatives

Section 105 of the Stewart B. McKinney Homeless Assistance Act (P.L. 100-77, July 22, 1987) directed GAO to evaluate the disbursement and use of the amounts made available for selected programs administered by the Federal Emergency Management Agency and the Department of Housing and Urban Development. We were also directed to provide reports on our results to the Congress in 1987 and again in 1988.

None of the funds appropriated pursuant to the act were disbursed in time to be covered in this first report. Accordingly, as agreed with congressional staff, this report discusses the types of goods and services purchased with prior appropriations, the status of actions being taken pursuant to the act, and matters that may warrant more detailed consideration in our second report.

Copies of this report are being sent to interested congressional committees, the Secretary of Housing and Urban Development, the Director of the Office of Management and Budget, and the Director of the Federal Emergency Management Agency.

This work was performed under the direction of John Luke, Associate Director. Other major contributors are listed in appendix I.

Charles A. Bowsher
Comptroller General
of the United States

Executive Summary

Purpose

The Congress has become increasingly concerned over the homeless population in the United States. The number of homeless people is believed to be growing. Estimates of the homeless population range from 250,000 to 3 million persons.

The Stewart B. McKinney Homeless Assistance Act, passed in July 1987, authorized over $400 million for fiscal year 1987 in homeless assistance funds for several federal programs. While the act directed GAO to report in 1987 and 1988 on the disbursement and use of the funds appropriated to the Department of Housing and Urban Development (HUD) and the Federal Emergency Management Agency (FEMA) under the act, implementation of the programs was only beginning. Thus, GAO's 1987 report

- examines how HUD and FEMA funds for the homeless were used before the act;
- describes actions taken pursuant to the act; and
- identifies issues concerning the act's implementation that may warrant more detailed examination in the 1988 report.

Background

The act authorized additional funding for the following three already existing programs:

- FEMA's Emergency Food and Shelter Program, established in 1983, provides funds to shelters and other service organizations around the nation for items such as food, consumable supplies for shelters, and rental and utility assistance to households.
- HUD's Emergency Shelter Grants Program, established in October 1986, is designed to address the nation's shortage of shelter capacity. It is similar to FEMA's program in terms of funding shelters' operating expenses, but it differs most notably by also providing funds for the renovation, major rehabilitation, or conversion of buildings to be used as shelters.
- HUD's Supportive Housing Demonstration Program (originally called the Transitional Housing Demonstration Program), established in October 1986, helps fund innovative programs to return homeless persons to independent living, and was modified by the McKinney Act to provide permanent housing for the handicapped homeless.

The act also established two new programs within HUD:

- Supplemental Assistance for Facilities to Assist the Homeless, which augments projects in the two previously cited HUD programs, facilitates

the use of public buildings to aid the homeless, and provides comprehensive assistance for particularly innovative approaches to homeless assistance.

- Assistance for Single Room Occupancy Dwellings, under section 8 of the United States Housing Act of 1937, is intended to encourage renovation of buildings for use by the homeless.

Results in Brief

Homeless assistance funds administered by HUD and FEMA are distributed to several thousand local organizations, including government and private nonprofit shelters and other assistance providers. Funds appropriated prior to the McKinney Act were to be used predominantly for food, rent and utility assistance, and operations and maintenance of shelters.

None of the funds appropriated pursuant to the McKinney Act had been disbursed in time for GAO to examine their use. Although the agencies have made progress toward implementing the McKinney Act, they have had some difficulty in meeting legislatively mandated milestones, such as publishing draft regulations.

Questions that need to be addressed concerning the implementation of the McKinney Act include:

- Is HUD appropriately implementing congressional intent concerning the circumstances in which funding assistance may be provided for capital improvements to shelters operated by religious organizations?
- Do HUD and FEMA target their programs to the segments of the homeless population required by the act?
- Do the HUD and FEMA formulas for distributing funds, which yield different results, accurately measure the need for funds in a given area?
- Should the use of federal funds as matching funds be permitted?

GAO's Analysis

Pre-McKinney Act Activities

Although no funds appropriated pursuant to the McKinney Act had been disbursed by September 30, 1987, disbursements had been made from earlier 1987 appropriations to aid the homeless.

Final accounts for pre-McKinney Act funds were not available at the time of GAO's review, but planned expenditures indicate that nearly 50

percent of FEMA's program funds were to be used for food. The cities and counties receiving direct allocations from HUD's Emergency Shelter Grants Program planned on spending approximately half their funds for shelter operations and maintenance. The initial grants were not large enough to support major shelter renovation efforts, according to HUD. In addition, some local government officials GAO visited said that the program's deadlines were too tight to allow them to enter into contracts for shelter renovations.

Actions Taken Pursuant to the Act

The McKinney Act called for Emergency Food and Shelter Program funds to be disbursed by October 11, but no appreciable disbursements are likely to be made before December. It also provided for implementation requirements for the Supplemental Assistance Program to be issued by August 21, 1987, but they were not issued until October 19.

Issues Concerning the Act's Implementation

Under what conditions should HUD funds be used for capital improvements to facilities owned by religious organizations? Even though a substantial number of shelters and services are provided by religious organizations, HUD has restricted the use of its funds for capital expenditures by such organizations to avoid what it believes would be a violation of the First Amendment to the Constitution. There are indications that this restriction has reduced those organizations' participation in HUD's programs. However, the Congress stated in its conference report on the McKinney Act that HUD could reduce its restrictions without creating a conflict with the First Amendment.

Will HUD and FEMA programs reach targeted populations? The McKinney Act calls for a focus on certain segments of the homeless population, such as families, veterans, and Native Americans. However, the federal government exercises little influence over the ultimate use of the funds granted by the Emergency Food and Shelter and Emergency Shelter Grants programs. Further, the existing reporting procedures will provide little information on the extent to which targeting is being done.

Do fund distribution formulas adequately measure needs? Although the Emergency Shelter Grants and Emergency Food and Shelter programs are both intended to reach the homeless population, the HUD and FEMA allocation procedures have resulted in notably different fund allocations across the nation. For example, in 1987, New York State received 10.7 percent of the pre-McKinney HUD funds and 6.9 percent of the FEMA funds.

Should homeless programs allow other federal funds to be used as matching funds? Homeless programs funded by the act vary with regard to whether federal funds can be used to meet matching fund requirements. For example, HUD's Emergency Shelter Grants Program requires the applicant to provide matching funds; in many cases the applicants plan to use federal funds as matching funds—usually FEMA Emergency Food and Shelter funds or Community Development Block Grant funds. Conversely, The McKinney Act requires the use of matching state and local funds for financing permanent housing for the handicapped homeless under HUD's Supportive Housing Demonstration Program.

Recommendations

This report describes the status of actions taken pursuant to the Stewart B. McKinney Homeless Assistance Act. GAO is not making recommendations at this time.

Agency Comments

GAO discussed the report's contents with HUD and FEMA officials and has included their comments where appropriate. However, GAO did not obtain official agency comments on this report.

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Abbreviations

CHAP	Comprehensive Homeless Assistance Plan
EFS	Emergency Food and Shelter Program
ESG	Emergency Shelter Grants Program
FEMA	Federal Emergency Management Agency
GAO	General Accounting Office
HRD	Human Resources Division
HUD	Department of Housing and Urban Development
SHD	Transitional Housing Demonstration Program
SRO	single room occupancy

Introduction

The number of homeless people in the United States is large and believed to be growing. It is difficult to arrive at an accurate estimate of the homeless population, however, because many are living in such places as the streets or abandoned buildings. As a result, the range of estimates of the homeless population is quite broad. In 1983, an advocacy organization for the homeless estimated the population at 2 to 3 million,[1] while in 1984 the Department of Housing and Urban Development (HUD) estimated the homeless population was 250,000 to 350,000.[2] In 1986, the United States Conference of Mayors surveyed 25 cities and found an increase of 20 percent in the demand for shelters; 24 percent of the total demand went unmet.[3]

To provide a more effective and responsible role for the federal government in assisting the homeless, the Congress passed the Stewart B. McKinney Homeless Assistance Act on June 30, 1987. Signed by the President on July 22, 1987, the act authorized $412 million for fiscal year 1987 and $506 million for fiscal year 1988, of which $355 million was appropriated for fiscal year 1987. The amount of funds authorized and appropriated for fiscal year 1987 pursuant to the act are shown in table 1.1.

[1]The Community for Creative Non-Violence, an organization located in Washington, D.C., provided this estimate.

[2]A Report to the Secretary on the Homeless and Emergency Shelters, HUD, May 1984.

[3]The Continued Growth of Hunger, Homelessness and Poverty in America's Cities: 1986, United States Conference of Mayors, December 1986.

Table 1.1: Homeless Assistance Funds Authorized and Appropriated Pursuant to the McKinney Act, FY 1987

	Authorized	Appropriated[a]
Interagency Council on the Homeless	$200,000	$200,000
Federal Emergency Management Agency		
Emergency Food and Shelter	15,000,000	10,000,000
Department of Housing and Urban Development		
Emergency Shelter Grants	100,000,000	50,000,000
Supportive Housing Demonstration	80,000,000	80,000,000
Supplemental Assistance for Facilities to Assist the Homeless	25,000,000	15,000,000
Section 8 Assistance for Single Room Occupancy Dwellings	35,000,000	35,000,000
Department of Health and Human Services		
Health and Substance Abuse Services	50,000,000	46,000,000
Community Mental Health Services	35,000,000	32,200,000
Mentally Ill Demonstration Projects	10,000,000	9,300,000
Alcohol and Drug Abuse Demonstration Projects	10,000,000	9,200,000
Emergency Community Services Homeless Grants	40,000,000	36,600,000
Department of Education		
Adult Education for the Homeless	7,500,000	6,900,000
Education for Homeless Children and Youth	5,000,000	4,600,000
Total	**$412,700,000**	**$335,000,000[b]**

[a]Urgent Relief for the Homeless Supplemental Appropriations Act of 1987, Title IV, P.L. 100-71.

[b]The appropriation also included $20 million for Veterans Administration medical care not included in the table because it was not appropriated pursuant to the McKinney Act.

Source: P.L. 100-71 and P.L. 100-77

The McKinney Act directed GAO to report on the use of funds under titles III and IV in 1987 and in 1988. These titles authorize funds for the programs for the homeless administered by the Federal Emergency Management Agency (FEMA) and HUD. This report describes the status of funds under these titles as of September 30, 1987, and identifies issues to be addressed in the 1988 report.

Reasons for Homelessness

Today's homeless population is much more diverse than in past years. Studies indicate that the homeless are no longer predominantly middle-age, white male alcoholics, i.e., the stereotypical "skid row bum." In addition to alcohol and substance abusers, the homeless population also includes families, especially single women with children; the elderly; and the mentally ill who have been discharged from mental institutions.[4] These new populations reflect new causes for homelessness.

[4]Homelessness: A Complex Problem and the Federal Response, GAO/HRD-85-40, April 9, 1985.

Reasons for homelessness differ by location, depending on variations in housing supply, unemployment, mental health policies, and even the weather. In our 1985 report, we summarized 52 local studies that examined factors contributing to homelessness between 1979 and 1984 and identified the following causes:

- decline in low-income housing supply;
- deinstitutionalization of mentally ill persons and the lack of available community-based services for them;
- increased unemployment;
- alcohol/drug abuse problems;
- increases in personal crises; and
- cuts in public assistance programs.

The U.S. Conference of Mayors study of 25 cities identified lack of low-cost housing as the most frequently cited cause of homelessness, followed by unemployment and mental illness.

The scarcity of affordable housing is particularly troublesome for the working poor. In 1985, we reported that the number of low-income households spending over 70 percent of their income on housing had reached 3.7 million by 1983, nearly doubling the 2 million identified in 1975. The 3.7 million represented 30 percent of the nation's low-income households.

The mentally ill, estimated in several studies at 30 to 50 percent of the homeless population, are often people who have been discharged from mental institutions yet have not been successfully reintegrated into the community. In 1955, the state mental hospital population peaked at 559,000. In 1965, the hospitals began to reduce their patient population with the intention of placing the patients in more supportive community settings. The state mental hospital population in 1985 was approximately 115,000, according to the National Institute of Mental Health.

The U.S. Conference of Mayors also reported that the employment situation is a major factor contributing to homelessness in 16 of the 25 cities; the shortage of unskilled jobs was frequently cited as a cause. Although most cities reported that the overall unemployment rate had declined or stayed constant, they cited such contributions to the homeless population as increases in the number of marginally employable; formerly unemployed persons taking part-time jobs at less than prevailing wages (on average, 19 percent of the homeless in the responding cities had

jobs); and an increase in the number of unemployed who had dropped out of the job market.

The National Institute of Mental Health prepared a summary of surveys that showed 10 to 15 percent of the homeless abuse drugs and 40 to 45 percent abuse alcohol. Regardless of whether these conditions began before or after homelessness occurred, the substance abuser is likely to have trouble finding and keeping a job, staying healthy, and saving income for food and shelter.

Another major cause of homelessness is personal crises, such as divorce or domestic violence. Six of the 25 cities surveyed by the U.S. Conference of Mayors reported domestic violence as a major cause of homelessness.

McKinney Act Requirements

In titles III and IV, the McKinney Act authorized funding to augment three HUD and FEMA programs that were in place before the act was passed and created two new HUD programs.[5] The three programs established before the act were FEMA's Emergency Food and Shelter Program; and HUD's Emergency Shelter Grants Program and the Transitional Housing Demonstration Program, changed in the act to the Supportive Housing Demonstration Program. These programs were augmented or modified by the act. The two new programs created by the act are HUD's Supplemental Assistance for Facilities to Assist the Homeless and its Section 8 Assistance for Single Room Occupancy Dwellings.

This section briefly describes these five programs. Table 1.2 summarizes their purposes and provisions.

[5]In addition to these programs, many federal agencies provide assistance to the homeless. For example, the U.S. Department of Agriculture's Commodity Credit Corporation provided 2.5 billion pounds of food between 1983 and 1986 to shelters and soup kitchens serving the homeless, and the Department of Defense donated $3.0 million of excess property (e.g., bedding, clothing, kitchen and medical equipment) in 1986.

Table 1.2: Description of Programs Included in Titles III and IV of McKinney Act

Program	Purpose	McKinney changes	Level of appropriations
Programs modified by the McKinney Act			
FEMA Emergency Food and shelter Program	Purchases food, consumable supplies, and small equipment. Provides utility and rent assistance, emergency lodging, and minor rehabilitation of shelters.	Emphasizes transition from temporary shelters to permanent homes. Focuses special attention on persons with mental and physical disabilities. Limits rehabilitation of shelters to amounts necessary to achieve compliance with building codes. Raises funding for administrative expenses from 2 to 5 percent of amounts appropriated. (The National Board limited administrative expenses to 3.5 percent.)	1983-87 $365 million 1987 $10 million (McKinney)
HUD Emergency Shelter Grants Program	Provides grants for renovation, major rehabilitation, or conversion of buildings used as emergency centers for homeless. Provides assistance for certain operating expenses and social services.	Requires cities, counties, and states to submit comprehensive homeless assistance plans. Changes minimum grant from $30,000 to .05 percent of appropriation. Provides for participation of territories and possessions. Provides for waiver of 15 percent limit on essential services.	1987 $10 million 1987 $50 million (McKinney)
HUD Transitional/Supportive Housing Demonstration Program	Develops innovative approaches to providing housing and supportive services to transition homeless persons to independent living arrangements.	Emphasizes housing projects that serve families with children, the deinstitutionalized, mentally ill, and handicapped. Establishes $15 million program for permanent housing for handicapped homeless.	1987 $5 million 1987 $80 million (McKinney)
Programs established by the McKinney Act			
HUD Supplemental Assistance for Facilities that Assist Homeless	Provides comprehensive assistance for innovative programs for meeting the short- and long-term needs of the homeless. Provides supplemental funding for projects in the ESG or SHD programs.	1987 $15 million	
HUD Section 8 Assistance for Single Room Occupancy Dwellings	Encourages renovation of single room occupancy units by providing rental assistance for such units.		1987 $35 million

Source: GAO

FEMA's Emergency Food and Shelter Program

FEMA's Emergency Food and Shelter Program, begun in fiscal year 1983, is designed to get funds quickly into the hands of food and shelter providers to alleviate the most pressing needs of the homeless. Since 1983, $375 million has been appropriated, including two appropriations totaling $115 million early in fiscal year 1987, and an additional $10 million pursuant to the McKinney Act. The program funds the purchase of food, consumable supplies essential to the operation of shelters and mass feeding facilities, small equipment, limited leasing of capital equipment, utility and rental assistance for people on the verge of homelessness, emergency lodging, and minor rehabilitation of shelter facilities.

The appropriation is distributed through a National Board, which FEMA chairs. The National Board consists of representatives from FEMA and six national charitable organizations, including the United Way, which was chosen to serve as the National Board's fiscal agent. The National Board establishes operating and reporting requirements for the program and allocates the funds to state set-aside committees and eligible cities and counties on the basis of unemployment data. The state set-aside committees allocate their funds to localities as they see fit. This arrangement allows some regional expertise to compensate for those cases in which unemployment may not be an accurate indicator of need. The locality receiving funds then convenes a local board that makes the funds available to local public and nonprofit shelters and other service providers, also using its own criteria for awarding the funds.

The local boards' planned use of the funds must be reviewed and approved by the National Board, which has responsibility for disbursements and accounting at the national level.

HUD's Emergency Shelter Grants Program

HUD's Emergency Shelter Grants Program was implemented in fiscal year 1987 with a $10 million appropriation. An additional $50 million was appropriated pursuant to the McKinney Act. The HUD program is similar to FEMA's in terms of funding maintenance and operating costs for the shelters, but it places more emphasis on capital expenditures, providing grants for the renovation, major rehabilitation, or conversion of buildings for use as emergency shelters for the homeless. It also covers certain operating and counseling service expenses incurred to assist the homeless. (There is a 15 percent limit on the latter category, which can now be waived.)

HUD allocates the funds to states and eligible cities and counties using the Community Development Block Grant formulas. In order to receive the funds, each city, county, and state must develop a plan for the distribution and use of the funds, and submit it to HUD for approval. HUD then accepts applications from the cities and counties with approved plans, and the approved states make their allocation available to local governments in the state.

HUD's Transitional Housing Demonstration Program

The Transitional Housing Demonstration Program was established in fiscal year 1987 with a $5 million appropriation. The McKinney Act changed the name to the Supportive Housing Demonstration Program, and also changed the direction of the program somewhat. The act and its related appropriation act directed the program to give particular emphasis to transitional housing projects that serve homeless families with children,[6] the deinstitutionalized, and individuals with mental disabilities; and permanent housing for the handicapped homeless. An additional $80 million was appropriated for fiscal year 1987 pursuant to the McKinney Act ($65 million for transitional housing and $15 million for permanent housing for the handicapped).

The transitional program was designed to develop innovative approaches to providing housing and supportive services to help facilitate the transition to independent living for homeless persons who are capable of making the transition within a reasonable period of time — considered by HUD to be 18 months or less. Eligible states, cities, counties, Indian tribes or private nonprofit organizations may submit project proposals to HUD, which evaluates them and selects the awardees.

The Permanent Housing for Handicapped Homeless Persons Program awards grants to selected states, which in turn distribute the funds to a project sponsor. The sponsor, a private nonprofit organization, operates the permanent housing and provides (or coordinates the provision of) supportive services. HUD assistance will take the form of advances for acquisition or major rehabilitation of facilities, or grants for moderate rehabilitation of housing units.

[6]Transitional housing shelters provide such services as counseling and training to the homeless in order to help them return to independent living.

HUD's Supplemental Assistance for Facilities to Assist the Homeless

The supplemental assistance program, established by the McKinney Act, has two purposes. The first, which HUD states will receive priority, is to fund projects that propose to provide innovative and comprehensive programs for homeless individuals or families. The supplemental assistance funds may be used to purchase, lease, renovate, or convert facilities, or may be used for supportive services for the homeless.

The second purpose is to supplement the assistance provided under the Emergency Shelter Grants or Supportive Housing Demonstration programs. These supplemental funds are to be used for homeless families with children, the elderly, and handicapped individuals, or to facilitate the use of public buildings to aid the homeless.

The act authorized up to $25 million for this program in fiscal year 1987, and $25 million in fiscal year 1988. In fiscal year 1987, $15 million was appropriated. To be eligible for funds, an applicant must have made reasonable efforts to use all available local resources and funds available under the other programs covered by title IV of the act. HUD will grant awards after reviewing project proposals.

HUD's Section 8 Assistance for Single Room Occupancy Dwellings

HUD was given a $35 million appropriation to be used under section 8 of the United States Housing Act of 1937 for the renovation of single room occupancy (SRO) units over a 10-year period. SRO's are found in hotel-like buildings. They are one-room units, have a shared bathroom, and often have no kitchen facilities. Traditionally, they are occupied by single, welfare-dependent people, many of whom are discharged mental patients. The nation lost over 1 million of these units in the 1970s for reasons including demolition and conversion to higher priced apartments and condominiums. The loss of these units has been reported to be a cause of homelessness.

This program provides rental assistance for homeless individuals in rehabilitated SRO housing. HUD solicits applications for assistance from public housing agencies and selects those that best demonstrate the need for assistance and the ability to carry out the program.

The rental assistance will equal the rent for the unit, including utilities, minus the portion of the rent payable by the tenant as determined by a schedule established by the Housing Act of 1937. A public housing agency selected for funding enters into an agreement with the owner of SRO housing. Under this agreement, the housing agency agrees to provide the rental assistance necessary to house the individuals in those units.

The owner then undertakes the rehabilitation of the SRO units and gives homeless individuals first option to rent these units.

The maximum cost of SRO rehabilitation that can be compensated through these rental assistance payments is $14,000 per unit. (This limit can be waived if fire and safety expenses are unusually high.) HUD estimates that the $35 million will help rehabilitate between 600 and 800 units during the 10-year period. The total number of homeless people assisted will depend on the turnover rate within the rehabilitated units.

Objectives, Scope, and Methodology

Although the McKinney Act includes many federal programs directed to help the homeless, section 105 of the act directs GAO to "evaluate the disbursement and use of the amounts made available by appropriation Acts under the authorizations in titles III and IV...," and report on the results of its evaluation. These titles cover the following HUD and FEMA programs:

- FEMA's Emergency Food and Shelter Program;
- HUD's Emergency Shelter Grants Program;
- HUD's Supportive Housing Demonstration Program;
- HUD's Supplemental Assistance for Facilities to Assist the Homeless; and
- HUD's Section 8 Assistance for Single Room Occupancy Dwellings.

Congressional staff working on the homeless programs indicated an interest in knowing how the funds are being used. Accordingly, we agreed to identify the types of goods and services being purchased with the funds and the types of homeless persons being assisted.

It also quickly became apparent that few if any of the funds appropriated pursuant to the McKinney Act would be disbursed in time to be covered by our review. Therefore, it was agreed that we would examine the use of earlier fiscal year 1987 appropriations for the programs that were subsequently included in titles III and IV, examine the status of any actions being taken specifically as a result of the McKinney Act, and identify issues concerning the act's implementation that may warrant more detailed examination in the 1988 report.

We spoke with, and examined the records of, cognizant HUD and FEMA program officials in Washington, D.C., and the United Way in Alexandria, Virginia. To obtain more indepth information on the use of these funds, we also conducted work in Los Angeles, California; Miami, Florida; Chicago, Illinois; Atlanta, Georgia; and New York, New York. We

visited officials of federal, state, and local governments to determine their criteria and rationale for distribution of the funds. We also visited several shelters and other service providers to obtain their views on the programs and to see firsthand some of the facilities providing assistance to the homeless.

Our review was conducted from August through October 1987. The tight reporting time frames established by the McKinney Act did not permit us to obtain formal written comments from HUD and FEMA on the matters presented in the report. We did, however, provide agency officials a draft of the report, and the report has been modified and/or their unofficial comments incorporated where appropriate. Time also did not permit us to validate financial or other statistical data we were provided. Otherwise, our review was conducted in accordance with generally accepted government auditing standards.

Status of FEMA and HUD Programs Before and After the McKinney Act

Funds for the homeless under the FEMA and HUD programs in place before the McKinney Act have been used chiefly for food and operating costs. According to HUD and some city government officials, small grant sizes and requirements that grants be used quickly have limited capital expenditures. Funds appropriated under the McKinney Act had not been disbursed by September 30, 1987. Some slippage is occurring in terms of meeting the legislatively mandated milestones, but some disbursements began during November 1987.

Programs Before the Act

Three programs—FEMA's Emergency Food and Shelter Program and HUD's Emergency Shelter Grants and Transitional Housing Demonstration programs—were established and funded prior to the McKinney Act. This section describes how these programs used their pre-McKinney fiscal year 1987 funds.

FEMA's Emergency Food and Shelter Program

This program received two separate appropriations totaling $115 million early in fiscal year 1987. Each appropriation was allocated separately by the national and state boards to about 2,000 local boards, which in turn distributed the funds among over 8,000 service providers, including shelters. The National Board required the funds to be spent by September 30, 1987. Final reports on the use made of these funds were not due from the shelters in time for us to examine them. However, we did examine the planned use of the funds and performed work in five cities to obtain a perspective on how the funds were being used.

The plans identify six categories of assistance. They are: food; mass shelter; rental and mortgage assistance and motel bills; rehabilitation of facilities; utility assistance (either for the service provider or for a household); and administration. Table 2.1 shows planned expenditures for the initial $115 million appropriations, as of October 31, 1987.

Table 2.1: Proposed Use of FEMA Emergency Food and Shelter Funds

Dollars in millions

Use of funds	Amount Expended	Percent
Food	$52.7	45.8
Shelters (primarily operating supplies)	10.5	9.1
Rental and mortgage assistance to households	30.4	26.5
Rehabilitation of shelters	2.5	2.2
Utility assistance	14.4	12.5
Administration	1.7	1.5
Other[a]	2.8	2.4
Total	**$115.0**	**100.0**

[a]Reallocated funds that have not been categorized as to their intended use.

Source: GAO analysis of National Board data.

We also visited certain cities and found that the methods of allocation used by the local boards, as well as the uses of the funds by the local recipients, varied considerably. For example, the Atlanta/DeKalb, Fulton County local board agreed to the following funding priorities for its initial allocation of $327,691: mass shelter, rent/mortgage assistance, temporary lodging, and food. In addition, the local board agreed that no more than $75,000 should be given for rehabilitation projects with the remainder allocated for all other services. A cap of $30,000 per grant was also agreed upon. Thirty-one local shelters and other service providers received funding during the initial allocation. The local board distributed the second allocation of $186,003 among 12 recipients currently receiving FEMA funds and 7 new recipients. The major emphasis for the allocation of these funds was on emergency rent and mortgage assistance. Table 2.2 shows the planned and actual use of the funds.

Table 2.2: Atlanta/DeKalb, Fulton County Local Board, Proposed and Actual EFS Expenditures

Type of expenditures	Proposed expenditures	Percent	Actual expenditures as of 6/30/87	Percent
Food	$114,319	22.3	$56,920	19.1
Mass shelter	18,766	3.7	23,830	8.0
Other shelter (primarily rental and mortgage assistance)	322,059	62.7	200,934	67.3
Rehabilitation of mass shelter facility	53,000	10.3	14,321	4.8
Utility (individual or family)	0	0	1,327	0.4
Utility (mass feeding or shelter)	0	0	1,100	0.4
Rehabilitation of mass feeding facility	5,300	1.0	0	0
Administrative costs	250	0	43	0
Total	**$513,694**	**100.0**	**$298,474**	**100.0**

Source: GAO analysis of Atlanta/DeKalb, Fulton County Local Board data.

We also visited Chicago, where FEMA funds are used primarily for food. The Greater Chicago Food Depository received about 30 percent of the city and county FEMA funds. The local board tried to spread the funds over as many organizations as possible by funding the smaller agencies first and allocating the remainder to the larger organizations such as the Greater Chicago Food Depository and Catholic Charities. The allocation process resulted in grants to 76 agencies in Cook County and Chicago. Forty-five of the 76 facilities serve all individuals, according to the United Way. The other 31 facilities are targeted toward particular groups. For example, four serve the mentally ill; seven shelter battered women; two assist Native Americans; and six support homeless youth.

HUD's Emergency Shelter Grants Program

HUD's Emergency Shelter Grants Program began in early fiscal year 1987 with an initial appropriation of $10 million. All funds had been made available to the cities, counties, and states by the end of April 1987. By the time we completed our review, however, less than $2 million had actually been requested by the recipients. Interim reports were required from cities, counties, and states participating in the program, but they are not designed to provide detailed information on the use of the funds. HUD's Office of Community Planning and Development, Program Analysis and Evaluation, reported that of the $10 million appropriated in early fiscal year 1987, approximately $5.4 million had been identified as budgeted for rehabilitation activities, $3.9 million for operational expenses, and $.6 million for essential services, such as counseling.[1]

[1]Based on homeless assistance plans, interim reports, and discussions with local officials.

Thirty-six cities and counties were allocated funds directly from HUD and thus had to submit plans. Emergency shelter grants planning documents submitted by the states were generally not detailed enough to categorize the use of the funds. Those few states that did identify how the funds would be used indicated a general emphasis on capital expenditures. Table 2.3 shows how the 36 cities proposed to use their portion of the initial $10 million appropriation.

Table 2.3: Proposed Use of Emergency Shelter Grants Funds Made Available Prior to McKinney Act

Dollars in Thousands

	Amounts	Percent of total city and county allocations
Purchased goods and services		
Capital expenditures (conversion or renovation)	$1,366	46
Operations and maintenance	1,230	42
Essential services	191	6
Food	22	1
Unknown	147	5
Total	**$2,956**	**100**
Expenditures by type of clientele		
Men	$515	17
Families	378	13
Women	327	11
Youth	146	5
Mentally ill	118	4
Substance abusers	23	1
General homeless or u[illegible]wn	1,449	49
Total	**$2,956**	**100**

Source: GAO analysis of HUD data

The program is intended to provide some emphasis to renovation and conversion of shelters, and as table 2.3 shows, about half the funds were planned for use in this manner. A HUD official speculated that the amount of funds planned for rehabilitation versus operational activities was influenced by, among other things, the relatively small amounts available to each community in the initial $10 million appropriation. The $10 million appropriation provided average grants to the states of about $138,000 and to the local governments of about $82,000. The range for the states was $8,000 (Hawaii) to $638,000 (California). The range for local governments was $30,000 (Kansas City, Missouri) to $606,000 (New York City).

As an example, New York City, which accounts for nearly 40 percent of the capital expenditures proposed by all cities and counties in the nation for this program, illustrates the kind of projects that can be undertaken. Of New York City's $606,000 allocation, 85 percent is to be used for shelter renovation, while the remainder is to be used for an employment training program:

- $515,100 would be used to increase by 50 beds the space for single men in an existing shelter operated by the city in the Greenpoint section of Brooklyn; and
- $90,900 would be spent for an employment training program to help female residents at a city-run shelter in Manhattan.

Although funds were obligated for the two projects by the August 19 deadline, none of the funds had been drawn down from the grant account as of September 30, 1987. City officials told us that work on the Greenpoint shelter would commence in October 1987. The employee training program is expected to run for 1 year and serve 48 women during the grant period.

Chicago, which received a $287,000 emergency shelter grant, solicited interest from shelter operators who had already received city funding and, as a result, found 27 organizations that wanted to participate in the program. The 27 local recipients of the funding included operators of both overnight and transitional shelters serving single men, single women, and families with children. Among these general categories were subgroups of homeless, including the mentally ill, substance abusers, battered women, and individuals and families suffering from economic or other personal crises. City officials told us that the 6-month grants obligation deadline does not allow recipients enough time to prepare rehabilitation specifications and comply with federal contract requirements.

Nine overnight shelters serving primarily single men and women received $131,500, or 46 percent of the federal funds in Chicago. Fourteen of the 17 transitional shelters served families with children, and the other 3 housed single men and women. In total, the transitional shelters received $155,500 or 54 percent of the federal funding. According to a HUD official, the city had not drawn on its emergency shelter grant letter of credit until September 30, 1987. City records showed the recipients had submitted vouchers to the Chicago Department of Human Services covering about $110,000 of the federal emergency shelter grant share through September 30, and city officials believed the shelters'

expenditures of federal funds had actually exceeded this amount. These officials did not have an estimate of when the shelter operators would complete their expenditure of these funds.

HUD's Transitional Housing Demonstration Program

Of the $5,000,000 available for HUD's Transitional Housing Demonstration Program, $4,948,845 was awarded to 11 recipients from among 95 applicants. The awards ranged in size from $77,443 to $1,364,000, with a median size of $307,215.

The funds can be used either as advances for capital improvements or as grants for operating costs. HUD will pay up to 50 percent of a facility's operating costs for the next 5 years. As seen in table 2.4, 83 percent ($4,123,510) of the awards is to be used for operating costs, while 17 percent ($825,335) is to be used for the acquisition or renovation of housing facilities.

Table 2.4: Proposed Use of THD Funds, $5 Million Appropriation

Location	Amounts			Annual cost per person	Number and types of persons served				
	Total	Operating	Capital		Family members	Single men	Single women	Mentally ill/ substance abusers	Unknown
Irvine, Calif.	$496,000	$350,000	$146,000	$1,984	25	15	10		
Atlanta, Ga.	202,260	116,010	86,250	1,618		25			
Louisville, Ky.	260,965	150,965	110,000	3,728	14+				
Boston, Mass.	77,143	0	77,143	2,571	6+				
Baltimore, Md.	1,364,000	1,364,000	0	1,921	142+				
Alfred, Me.	389,225	389,225	0	7,784				10	
Manchester, N.H.	372,895	207,845	165,050	10,654			7		
Reno, Nev.	1,212,410	1,062,410	150,000	5,271					46
Poughkeepsie, N.Y.	133,492	42,600	90,892	1,789	15[a]				
North Bend, Ore.	133,240	133,240	0	4,441	6[a]				
Memphis, Tenn.	307,215	307,215	0	4,389				14	
Total	**$4,948,845**	**$4,123,510**	**$825,335**	**2,954**	**208+**	**40**	**17**	**24**	**46**

[a]Emphasizing victims of domestic violence.
Source: GAO analysis of HUD data.

The targeted beneficiaries of the transitional housing projects vary, but families are the most common. The proposals indicated that at least 335 people would be assisted (an exact number is unobtainable since family size is unknown.) Of the 289 or more people that can be categorized, at least 208 will be family members, either single or two-parent families.

Of these, approximately 21 will be victims of domestic violence. The next largest category is single men, 40, followed by substance abusers/mentally ill, 24, and single women, 17. Forty-six of the beneficiaries cannot be easily categorized.

The projects also vary by size. Two of the projects will receive more than $1.2 million each, one will receive just under $500,000, and the remaining eight will receive an average of $234,554. Not surprisingly, the 3 largest projects are expected to serve the largest number of people—at least 238 of the 335 or more beneficiaries. The remaining 8 are expected to serve an average of 12 people.

The HUD funds will assist the homeless for 5 years. If 335 persons are housed at any one time throughout those 5 years, HUD's awards translate to $2,955 per person per year. Assuming that HUD's awards are matched with an equal amount from the recipient, the transitional housing projects will be spending approximately $5,909 per person per year, or $16 per day.

Programs After the Act

This section reports on the status of FEMA and HUD efforts to implement the programs for which they are responsible under the McKinney Act. The proposed regulations for the Supplemental Assistance Program missed the publishing deadline set by the McKinney Act by nearly 2 months, and the Emergency Food and Shelter Program disbursement deadline was also missed. Some other McKinney Act milestones were also missed but only by a few days.

FEMA's Emergency Food and Shelter Program

The McKinney Act's alterations to the Emergency Food and Shelter Program included calling for sensitivity to the transition from temporary shelter to permanent homes and attention to the special needs of homeless individuals with mental and physical disabilities and illnesses. The act also limited the rehabilitation of buildings to the amount necessary to make them safe, sanitary, and in compliance with local building codes. Finally, it raised the amount available for administrative expenses from 2 to 5 percent of the amount appropriated.

Since neither FEMA nor the National Board selects the grant recipients, the local boards were advised of these changes, but the National Board did not dictate any goals, quotas, or procedures to assure that assistance reached the target groups. The National Board's new guidelines deleted

the previously allowable eligible expense for expansion of physical facilities, and raised the administrative expense allowance to 3.5 percent of the amount available. (FEMA explained that this was revised to 3.5 percent because that is the amount specified in legislation pending in both the Senate and the House.)

Pursuant to the McKinney Act, the program was appropriated $10 million. The act stipulated that the National Board disburse the funds by October 11, 1987. The National Board advised selected Congressional chairmen that it disburses the funds in increments for fiscal control purposes. Therefore, the Board proposed considering the funds disbursed if each eligible agency had received some of its funds by October 11. These initial disbursements were not made by October 11, 1987, however. Although the National Board's proposal appears to be a reasonable definition of disbursement, it makes no disbursements until it has approved the local boards' plans, and the plans from the local boards were not due in to the National Board for review and approval until November 23, 1987. We were told that some disbursements had begun on November 12 from early plan submissions.

HUD's Emergency Shelter Grants Program

The Emergency Shelter Grants Program was changed in the following ways by the McKinney Act:

- Cities, counties, and states desiring to participate in the program are required to submit a comprehensive homeless assistance plan (CHAP).[2]
- HUD was given authority to waive a previously established provision limiting counseling and other essential services to no more than 15 percent of each grant.
- The minimum grant was changed from $30,000 to .05 percent of each appropriation.
- Provision was made for participation in the program by all U.S. territories and possessions.

Instructions on preparing and submitting CHAPs were published on August 14, 1987. Interim procedures on incorporating the act's changes

[2]CHAPs are required of all cities, counties, and states that are eligible and want to apply for emergency shelter grants under title IV of the act. States must submit CHAPs to allow nonprofit organizations within the state to apply for funds. The CHAPs must contain a description of need, an inventory of facilities and services, a strategy to match the needs with available services, a recognition of the needs of homeless families with children, the elderly, mentally ill and veterans, and an explanation of how the federal assistance will enhance these efforts.

were published on September 4, 1987, and completely revised regulations under which the pre-McKinney Act funds will be administered were issued on October 19, 1987.

HUD received a $50 million appropriation pursuant to the McKinney Act, with the stipulation that each state, county, and city be notified of the amount it is being allocated within 60 days of the appropriation, i.e., by September 9, 1987. The allocations were sent on August 31, 1987, requiring that cities, counties, and territories submit applications by October 15, 1987, and that states submit notices of intent to participate by the same date.

According to a HUD official, all states, 4 of 5 eligible territories, and all but 4 of the eligible 322 cities and counties, had submitted CHAPs. As of November 4, 1987, all 51 states (including Puerto Rico) had submitted their letters of intent. Of the 322 cities and counties, and 5 territories, 294 had submitted applications by November 4, 1987. Of these, 257 had been approved.

HUD's Supportive Housing Demonstration Program

Previously, the Transitional Housing Demonstration Program funded demonstration projects directed at innovative approaches to help homeless persons to live independently. The McKinney Act placed this effort under the Supportive Housing Demonstration Program and also added the responsibility of funding permanent housing for handicapped homeless persons, as well as the concept of developing innovative approaches to meet the special needs of the deinstitutionalized, families with children, and individuals with mental disabilities and other handicaps. The act also extended the length of the commitment required of any funding recipient,[3] and required that participants submit a certification of consistency with the CHAP.

A notice in the Federal Register incorporating these McKinney Act changes for all but the transitional housing portion was published on September 3, 1987. It also called for applications by October 30, 1987. Approximately 250 applications were received and are being reviewed. HUD anticipates selecting the awardees by mid-December. Revised regulations for transitional housing, incorporating all McKinney Act changes,

[3]Under current guidelines, any recipient of an advance for capital improvements must use the improved facility as transitional housing for 20 years, or repay all or a portion of the advance. Under the pre-McKinney Act guidelines, if the recipient used the improved facility as transitional housing for 10 years no repayment was necessary. In either case, waivers can be granted by the Secretary of HUD.

as well as separate regulations covering permanent housing for the handicapped, were published in proposed form on October 26, 1987.

This program received $80 million pursuant to the McKinney Act. The act stipulated that no less than $20 million be allocated to transitional projects serving families with children, and not less than $15 million to permanent housing for the handicapped, while the conference report to the Supplemental Appropriations Act called for $30 million to be allocated to transitional housing for deinstitutionalized individuals.

HUD's Supplemental Assistance for Facilities to Assist the Homeless

The McKinney Act called for requirements for carrying out the Supplemental Assistance Program to be published by August 21, 1987, but they were not issued until October 19, 1987. According to a HUD official, the delay was apparently caused by uncertainty over which organization within HUD would administer the program. Applications are due by December 3, 1987, and HUD expects to announce the selected projects by December 23.

HUD's Section 8 Assistance for Single Room Occupancy Dwellings

A notice of funds available for this program was issued on October 15, 1987, calling for applications by November 16. Approximately 100 applications were received. Agreements between public housing authorities and the owners of the SRO units regarding rental assistance and renovation are to be made no later than January 4, 1988. The renovation work is to be completed within 6 months of execution of the agreement.

Chapter 3

Issues Warranting Further Study Under the McKinney Act

Although some of the McKinney Act funds for HUD and FEMA programs are just being awarded, we noted several matters affecting their proposed distribution and use that may warrant further study and which we will consider during our follow-on work. These issues include (1) the restrictions placed by HUD on providing funding assistance to religious organizations, (2) the focus of program funds on short-term and immediate needs rather than expansion of shelter capacity, (3) FEMA's and HUD's different methods of fund allocation, (4) the use of federal funds to match other federal funds, and (5) the amount of emphasis given to target groups that are specified in the McKinney Act.

HUD Programs Restrict Funding to Religious Organizations

HUD has determined that it would violate the First Amendment prohibition against advancing a particular religion if public funds were used in certain ways. To avoid this possibility, HUD has restricted the use of emergency shelter and supportive housing demonstration funds for capital improvements at facilities owned by primarily religious organizations. HUD's proposed emergency shelter regulation of December 17, 1986, prohibited the use of emergency shelter grant funds to renovate, rehabilitate, or convert buildings owned by pervasively sectarian (i.e., religious) organizations. However, the regulations later pointed out, "...it should be noted that...buildings owned by independent nonprofit entities established by pervasively sectarian organizations for secular purposes could be assisted." This allows a religious organization to establish a separate nonsectarian organization to operate the service facility and then be eligible for emergency shelter assistance. HUD will provide financial assistance to religious organizations for essential services, operations and maintenance. The same provisions are contained in HUD's proposed regulations for the Supportive Housing Demonstration Program.[1]

Further, we examined all of the emergency shelter plans submitted by cities, counties, and states, and found that 16 states appear to have imposed even stricter limits than HUD. The stricter limits were put into effect by making no reference to the possibility of allowing religious organizations to establish separate nonprofit entities to own and administer an emergency shelter.

[1]FEMA took a different approach. FEMA funds rehabilitation projects without regard to the religious nature of the grantee. Moreover, it has a National Board comprised partly of representatives from religious bodies. (HUD has correctly pointed out that FEMA's Emergency and Food Shelter Program does not fund a large amount of capital improvements. However, in the past there was no restriction on the amount or type of essential capital improvements undertaken by any FEMA grantee.)

These restrictions may have had a major impact on HUD programs for the homeless since a great many of the shelters and service providers throughout the nation are religious organizations. For example, in both Miami and Chicago, the Salvation Army declined to participate in the Emergency Shelter Grants Program because of HUD's religious restrictions, and Wyoming's Homeless Assistance Plan stated it would give all its emergency shelter funds to two shelters and one supportive service organization in part because "the State currently has only two emergency shelters for the homeless which conform to...the constitutional limitations on the use of emergency shelter grant funds by primarily religious organizations."

HUD received several comments from concerned individuals and organizations regarding its proposed emergency shelter and transitional housing regulations and the restrictions placed on providing funding assistance to religious organizations. The comments requesting reconsideration of this restriction contended that religious organizations have been at the forefront of efforts to assist the homeless, and that the restriction would eliminate many of the most experienced and effective organizations.

The Congress responded to the controversy over funding religious organizations for capital improvements to shelters in House Report 100-10 (Part I) and the McKinney Act Conference Report. The March 2, 1987, House Report, from the Committee on Banking, Finance and Urban Affairs, stated, "It is clear from the plain language of the Appropriation Acts that first funded HUD's Emergency Homeless Assistance Grants and Transitional Housing Demonstration Program (P.L. 99-500 or P.L. 99-591,) that religious organizations could receive funds to acquire or rehabilitate housing for the homeless." The report further says that the question to be answered is not whether some benefit accrues to a religious institution (in this case the value added to a building with grant funds) but whether as a consequence of the assistance the primary effect is to advance religion.

The June 19, 1987, conference report endorsed the message in House Report 100-10. The House Report stated that funds could be provided to religious organizations under the following conditions:

- No person applying for funded services shall be discriminated against on the basis of religion.

- No religious instruction or counseling, and no religious worship will be provided in connection with the provision of secular nonreligious assistance.
- No sectarian or religious symbols may be used in the portion of the facility used to provide secular services unless such symbols had been previously permanently affixed to the facility.
- All federal funds must be accounted for separately from all other funds of the institution so that the federal government will not have to monitor the general accounts of the religious organization.
- Any real property that is owned by a religious organization or an organization with religious affiliation and rehabilitated with federal funds must be dedicated solely to secular purposes. If the property is sold, the proportion of the proceeds of the sale attributable to the federal grant (up to a maximum of the actual federal grant plus interest) must be repaid to the federal government or dedicated to secular purposes. If the property reverts to sectarian use, the grant amount must be repaid.

Final guidelines for the Transitional Housing Demonstration Program were published on June 9, 1987 (prior to the printing of the Conference Report), with the restrictions remaining as originally proposed. However, revised proposed regulations pursuant to the McKinney Act were published on October 26, 1987, modifying HUD's position somewhat. In essence, they proposed allowing religious organizations to lease their shelters to a nonprofit organization to operate it. If there is any residual value left after termination of the committed use of the facility as a shelter, the organization will have to pay HUD for that value.

Focus of Program Funds Geared to Current Needs

Although many cities in the nation appear to have a shortage of shelter capacity, and both the Emergency Food and Shelter and Emergency Shelter Grants programs, particularly the latter, have provided for capital expenditures, there has been a focus on short-term and immediate needs. This trend may reflect the most pressing needs at the local level, or it may suggest that characteristics of the programs discourage spending for long-term needs.

FEMA's Emergency Food and Shelter Program

The McKinney Act precluded use of funds in this program for shelter expansion, though expansion was an eligible use of the funds prior to the act. We examined the fiscal year 1987 pre-McKinney plans for the emergency food and shelter recipients in the 25 cities that had been surveyed by the U.S. Conference of Mayors, and found the recipients planned to spend the majority of the funds on food. The shelters in the

25 cities allocated 63.4 percent to food. An additional 17.4 percent was planned for "other shelter," i.e., no more than 1 month's rent, mortgage, or lodging assistance in an apartment, house, hotel or motel. The purpose of providing such assistance is to prevent eviction or foreclosure. In regard to rehabilitation of shelter facilities, recipients planned to spend an average of 2.4 percent of their grants for this purpose. Fifteen of those 25 cities planned no expenditures on rehabilitation.

There may be little renovation work under the Emergency Food and Shelter Program because (1) all funds have to be spent by the end of the fiscal year and (2) grants are generally small. The recipients of pre-McKinney funds in fiscal year 1987 typically had no more than about 8 months in which to spend their grants, which averaged about $14,000. The relatively small size of the grants and the limited time available to spend the funds may not make it possible for local recipients to undertake any significant renovation or expansion of facilities, even if it is needed.

HUD's Emergency Shelter Grants Program

A key element of this program is its potential for broad funding of capital expenditures. It appears that about half of the emergency shelter grant funds will be spent on renovation and conversion.

Of the $2,956,000 in emergency shelter grants awarded directly to 36 cities and counties in fiscal year 1987, 46 percent was planned for renovation and conversion of shelter facilities. The 49 state plans submitted to HUD do not consistently indicate the planned spending, although, when the states are specific, there appears to be an emphasis on capital improvements.

Forty-eight percent of the city and county funds were to be used for operations, maintenance, and essential services. Another 5 percent could not be categorized, and 1 percent was intended for food. Therefore, the 36 cities and counties plan to spend approximately $1.4 million on capital improvements. Of the amount identified, half is planned for conversion of buildings to shelters or enlargement, and half for renovation. A HUD program official said that those organizations receiving large awards and needing capital improvements may have been faced with construction permit processes that could not be accomplished within the time available.

The 36 cities in the program did not have to spend the grants by the end of the year, but the funds did need to be obligated within 180 days of

the grant's being awarded to the city. The obligation requirement could be satisfied by entering into an agreement with a nonprofit organization to carry out the activities. There was no requirement that the funds actually be spent by a particular date. Nonetheless, city officials in Chicago told us that the 6-month obligation deadline did not allow recipients enough time to prepare rehabilitation specifications and meet federal contract requirements. As a result, most funds were used for operations and maintenance.

It remains to be seen whether jurisdictions are interested in and able to conduct more capital improvements with funds from the second phase of the fiscal year 1987 Emergency Shelter Grants Program appropriation of $50 million. The average grant sizes will be larger for the 36 cities and counties that received initial grants ($409,806 vs. $82,111), which could make it easier for them to undertake substantial capital projects. The remaining 286 communities will receive grants averaging $49,976. This is a smaller average grant than the 36 initial communities received, but the 286 cities are smaller in size and may have a smaller homeless problem. It is also possible that the level of capital projects reflects the true need of communities; that facilities are in place; and that what is needed are operating funds and food for the homeless. However, the U.S. Conference of Mayors reported in December 1986 that for the 25 cities it surveyed, 24 percent of the demand for emergency shelter went unmet. For example, in Chicago, twenty-three transitional shelter operators reported that they had turned away a total of between about 1,800 and almost 3,000 people requesting shelter each month, May through August 1987. Most of those turned away, as many as 90 percent in August, were families with children.

Differing Fund Allocation Procedures

While the Supplemental Assistance for Facilities to Assist the Homeless, the Supportive Housing Demonstration, and the section 8 programs will respond to applications for specific projects, the Emergency Shelter Grants and Emergency Food and Shelter programs distribute their funds nationwide on the basis of formula allocations. However, different formulas are used in each program, and each results in markedly different allocations.

FEMA's funds are distributed solely on the basis of the latest unemployment statistics, while HUD's funds, by law, are distributed using the Community Development Block Grant formulas. These formulas consider a combination of population, poverty, overcrowded housing, age of

housing and population growth. To illustrate the results of the two different allocation methods, New York State received 6.9 percent of the pre-McKinney FEMA funds and 10.7 percent of the HUD emergency shelter grants in fiscal year 1987.

FEMA attempts to compensate for differences between homeless populations and unemployment by allocating some money to the state level in addition to allocating money directly to cities and counties. The state allocation is then reallocated to localities within the state. This gives the states some flexibility in channeling funds to areas such as those whose need is not accurately reflected by unemployment data. HUD's emergency shelter grants allocation offers similar flexibility by making funds available at the state level as well as directly to specific cities and counties. While this approach would help ensure an equitable allocation of funds within each state, it would not ensure that the state as a whole is receiving an equitable amount of funds.

The potential disparity between HUD's and FEMA's procedures can be shown by information compiled by the U.S. Conference of Mayors. For example, the Conference reported that Hartford, Connecticut, had a 6.1 percent unemployment rate in September 1985, but its 1979 poverty rate—a factor in HUD's allocation— was 25.2 percent. However, for the same years, San Francisco had about the same unemployment rate (6.4 percent) but a much lower percent poverty rate (13.7 percent).

State and local officials in the cities we visited provided the following comments on the current allocation methods:

- Allocations do not take into account special circumstances such as recent immigrants, illegal aliens, or migrant farm workers.
- Heavily populated counties with low unemployment and poverty rates may have large numbers of homeless.
- The block grant formulas do not distribute the funds to the areas needing the most help for the homeless.

Thus, both the FEMA and HUD allocation methods were criticized.

Use of Federal Funds as Matching Funds

The McKinney Act programs vary with regard to the use of matching funds, both in terms of a matching requirement and restrictions on the source of the match. Funds provided under the Emergency Shelter Grants and Supportive Housing Demonstration programs must be

matched, while Emergency Food and Shelter, SRO and the Supplemental Assistance for Facilities funds do not need to be matched.

The McKinney Act requires only that the source or sources of the match for the Emergency Shelter Grants or Supportive Housing Demonstration programs be other than that particular subtitle. However, it is unclear whether other federal funds received by the grantee may be used as the match. GAO decisions have held that because one of the principal purposes of matching requirements is to encourage local participation, a grantee may not use funds provided under other federal programs to meet matching requirements unless specifically authorized by the legislation. It is unclear whether the language of the McKinney Act, specifically limiting use of matching funds from the same subtitle, was intended to authorize use of other federal funding. The McKinney Act requires that matching funds for the Supportive Housing Demonstration Program for permanent housing for the handicapped homeless specifically come from state and local funds.

Similarly, HUD on its own initiative, has further strengthened the matching requirement for one of its programs. The final regulations published for the Transitional Housing Demonstration Program (now known as the Supportive Housing Demonstration Program) required that local matching funds not come from federal sources (other than Community Development Block Grant funds). HUD explained this requirement by saying,

"Obtaining funds from State or local governments or from private sources generally indicates that the sources of these funds has made a favorable judgement on the applicant and its program. In addition, the Department believes that this approach will ensure the active participation of State and local governments, and nonprofit organizations."

However, we examined the plans submitted by the cities, counties and states for the $10 million Emergency Shelter Grants appropriation, and performed work in selected cities, and found that many of them proposed using not only Community Development Block Grant funds, but also FEMA Emergency Food and Shelter funds, as matching funds. Information in most plans was too incomplete to suggest whether this is likely to happen with any frequency, as well as whether some nonfederal source of funds could just as easily have been presented as matching funds.

Emphasis Given to Target Groups

The extent to which the McKinney Act program funds will be directed toward target groups specified by the act is not readily determinable because of (1) varying provisions within the act, and (2) little federal control over how some funds will be distributed.

The act refers to target groups in two different ways. First, the target groups are cited in the general description of the purpose of the act (Section 102(b)(3)). Second, the subtitles establishing each program describe the target groups somewhat differently than in the general purpose statement. The conference report also states that the conferees intended that homeless Native Americans be eligible for and served by all the programs in the act. Section 102(b)(3) of the act states that one of the purposes of the act is to provide funds to assist the homeless with a special emphasis on elderly persons, handicapped persons, families with children, Native Americans, and veterans. Sections of the act dealing with particular programs usually refer to some, but not all, of these segments of the homeless populations.

We considered the extent to which the various programs are focusing on these target groups, either those in section 102 (b)(3), or specific provisions relating to particular target groups.

FEMA

Section 313(a) states that the Emergency Food and Shelter Program should emphasize serving persons with mental and physical disabilities and illness, thereby not targeting several groups mentioned in Section 102(b)(3). Neither FEMA nor the National Board selects the grant recipients, leaving that to the local boards. The National Board did advise state and local boards of this special emphasis, but stated that it should be used as a guide and not a mandate. Further, the National Board's guidance to state and local boards says, "The National Board does not set client eligibility criteria." On the other hand, FEMA is querying local boards near Indian reservations on the extent of homeless assistance needed by and provided to Native Americans.

HUD

The HUD programs are complicated by the language that describes the contents of the CHAP. An applicant for HUD funding will be eligible to receive a grant only if a CHAP has been submitted by the appropriate state or local jurisdiction. Section 401 requires the CHAP to contain "a strategy...to recognize the special needs of the various types of homeless individuals, particularly families with children, the elderly, the mentally ill, and veterans."

The language of the McKinney Act specific to the programs that use the CHAP, however, is not consistent with this. The Supportive Housing Demonstration Program description in the act does not list the elderly or veterans. Funds were directed by law especially to the deinstitutionalized homeless, homeless families with children, mentally disabled homeless people, and handicapped homeless people, and HUD has issued proposed regulations to that effect.

The description of the Emergency Shelter Grants Program in the act does not specify target groups, nor does HUD have any direct control over how state and local governments distribute the grants. Further, HUD officials advised us that under the definition established in the act, an Indian tribe would not be an eligible applicant in this program, possibly contrary to the previously mentioned conference report statement that Native Americans be eligible for and served by all programs in the act.

The Supplemental Assistance for Facilities Program is designed to supplement the Emergency Shelter Grants and Supportive Housing Demonstration programs, facilitate the transfer of public facilities for use as homeless shelters and service providers, and provide comprehensive assistance for particularly innovative programs. The latter effort will get priority in the project selection process. The act directs that funds used to supplement Supportive Housing Demonstration and Emergency Shelter Grants projects are supposed to meet the special needs of homeless families with children, elderly persons, or handicapped persons. The act does not specify a particular group regarding assistance for comprehensive programs. However, the act directs HUD to reserve to the maximum extent practicable not less than 50 percent of all funds primarily to benefit homeless elderly individuals and homeless families with children.

The language in the act describing the SRO program does not list any target groups. The October 15, 1987, proposed guidelines for this program, however, do suggest that substance abusers, the mentally ill, or other groups could be targeted. It remains to be seen whether HUD's selection process attempts to favor any of the act's target groups.

Reporting

It is also difficult to determine the extent to which the target groups listed by the act are being served. The reporting requirements imposed upon recipients do not call for a description of the types of clients being

served. Quantifiable data only concerns categories of spending, and narrative descriptions of program activities have been lacking in detail.

Other Issues Warranting Further Study

We received other comments about the FEMA and HUD programs from state and local government officials and shelter operators that may also warrant further study.

Timing

Several service providers told us that the timing of the funds' availability adversely affects their use. Concerns centered around the funds (1) not being available in the most critical winter months and (2) having to be obligated or spent too quickly. Providers also said that the planning itself had to be done too quickly. For example, one frequent comment from FEMA grant recipients was that they received their funds late in the winter and felt they had too little time to spend them, since the funds had to be spent by September 30. Chicago officials, on the other hand, said that because of the year-round needs of the homeless, the FEMA funds can be used whenever they receive them.

Other service providers made additional comments on timing and planning.

- For state allocations, the Emergency Shelter Grants Program sets deadlines for offering the funds to local units of government (65 days) and for committing funds to projects (180 days) but no deadline for the expenditure of funds. A Georgia official contended that the emphasis should be on performance, as measured by completed projects, not by the number of days it takes an agency to offer funds to another unit of government, which then must designate the funds to a local project.
- City of Atlanta officials said that the Emergency Shelter Grants Program's multi-year funding commitment requirement is difficult for shelters and local governments to make.

Administrative Concerns

Service providers expressed the following administrative concerns:

- FEMA recipients would like to be able to spend more of their grant money for administration. (Under current rules, recipients are not allowed to spend more than 2 percent or less of their grant funds for administration.)

- Chicago officials expressed similar concerns about two emergency shelter grant provisions. First, the program does not provide funds for additional shelter operations staff who would be needed if the funds were to be used for expanding facilities and services. Nonprofit shelter providers generally would not have the resources to operate expanded services. Second, the program does not provide funds for the city's administrative costs, placing additional demands on existing resources. City officials estimated that indirect costs averaged about 13 percent for similar social services programs and told us that such costs are normally covered under other federal assistance programs it administers.
- Officials in California involved in the Emergency Shelter Grants program believe allowances should be made for the administrative costs of the program. A state official commented that it took his division 1 month to prepare the state's CHAP. This he said, combined with the other reporting demands at the end of the federal fiscal year, was a great drain on the already limited resources of the state.
- Various officials in Illinois expressed concern about their ability to coordinate the provisions of the McKinney Act and to develop an effective program to address the homeless problem. They pointed out that funds authorized by the act will flow to different jurisdictions: to the states, directly to cities, to public housing authorities, etc. The funds will also be administered by different agencies at the federal level, so that public and private recipients will be subject to different regulations and procedures.
- A Georgia official questioned the rationale for mandating that state emergency shelter grants funds be awarded by the state to local units of government rather than directly to nonprofit organizations. He contended that without provisions for administrative funding relief, the requirement that two levels of government be involved in the disbursement of funds and in assuring program compliance is without merit.

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